

Money Matters

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SUMMER 2018

The importance of inheritance tax planning



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Pension contributions offset tax gains

Contribution rates for workplace pensions went up in April 2018. For many employees, the increases will wipe out the gains from tax changes for 2018/19.

Auto-enrolment began in 2012 with existing employers joining the scheme until February 2018. As a result, the number of people with a workplace pension has risen by nearly a quarter. The next step is an increase in contribution rates from 6 April, with another rise in 2019/20, as shown below.

	2017/18	2018/19	2019/20
Employer minimum contribution	1%	2%	3%
Employee contribution*	1%	3%	5%
Total minimum contribution	2%	5%	8%
Earnings band	£5,876 to £45,000	£6,032 to £46,350	TBC

** If the employer pays the total minimum contribution or more, the employee will not need to pay any contributions, unless their scheme rules require it.*

For example Jessica, an English resident employee earning £35,000, will save £70 of income tax in 2018/19 from the increase in the personal allowance. She will also save £31 of national insurance contributions (NICs) because of the increased NICs thresholds. However, her net of tax pension contributions will rise by £462, so Jessica's net income will have dropped by £30 a month in 2018/19.

Of course, this money is not lost. It is invested in a pension, meaning there will be more funds

available in retirement.

A rule of thumb is that your total pension contributions, including employer contributions, should be a percentage of your earnings equal to half your age when you start saving. Someone starting a pension at 30 should ideally have contributions of 15% of their gross salary going into their pension fund.

Further changes

Looking to the future, the government wants to lower the starting age to 18 and it also aims to ensure contributions are paid from the first pound earned, although probably not until the mid-2020s.

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Credit: iStock/AaronPattison



Is import VAT coming after Brexit?

UK businesses may find themselves paying VAT upfront for the first time. Controversial legislation now making its way through Parliament will apply when importing goods from the EU after Brexit.

Reverse charge procedure

Currently, if a business acquires goods from within the EU, it accounts for VAT under a reverse charge procedure. Both the output VAT and input VAT are entered on the same VAT return so, for most businesses, there is no VAT cost because the two amounts cancel out.

Imports

The Taxation (Cross-border Trade) Bill will remove the concept of EU acquisitions. Instead, HMRC will treat purchases from the EU in the same way as imports from outside the EU. This is, of course, conditional on the Brexit negotiations.

The import VAT will need to be paid at the time of importation, as a condition of clearing customs. This is then reclaimed on the next VAT return. Depending on timing, there could be a delay of more than five months before import VAT is recovered. For businesses that only deal with the EU, this could cause serious cashflow problems.

This VAT change could take effect when the UK leaves the EU on 29 March 2019, so it is best to be prepared.

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Planning points

Businesses can mitigate the cashflow problems around importation:

- Regular importers can set up a deferment account with HMRC, allowing import VAT to be paid monthly in arrears. It is often necessary to provide HMRC with a costly bank- or insurance-backed guarantee.
- Firms can file monthly VAT returns if they regularly receive VAT refunds, although this does mean 12 returns a year.
- Businesses can set up a revolving credit facility to fund import VAT, but this comes at a cost.

It is sensible to start planning for likely outcomes, such as rules generally applied to countries outside the EU, although it depends on government negotiations with the EU. Please contact us if you want to discuss the potential implications for your business.

Don't put off your inheritance tax planning

When Sir Ken Dodd married his long-time partner two days before he died, he potentially saved nearly £3 million in inheritance tax (IHT) on his estimated £7 million estate.

Few people will be in a position to reduce their IHT bill so readily, but there are several ways you can benefit your loved ones with good estate planning undertaken in time.

Sir Ken took advantage of the IHT exemption for assets passed to a UK domiciled spouse or civil partner. There is no exemption for transfers to a partner who is not a spouse or civil partner, however long the couple have lived together, and so-called 'common law marriage' is not recognised for tax purposes.

Passing on property

A major tax benefit of marriage or civil

partnership is the transfer to the surviving partner of any unused nil rate band when the first of the couple dies. The nil rate band means estates of up to £325,000 are exempt from IHT, so on the second death up to £650,000 of an estate could be free of IHT.

“ *The RNRB was £100,000 when it was introduced in 2017/18 and will reach £175,000 in 2020/21 – that's £350,000 for a couple.*

The same goes for the residence nil rate band (RNRB), which increased to £125,000 on 6 April 2018. This allowance is available when



a residence is passed on to direct descendants – children, grandchildren and other lineal descendants or their spouses or civil partners. The property need only have been the deceased's residence at some point, and not necessarily the main residence. Further the RNRB can be preserved if you downsize or cease to own a home.

The RNRB was £100,000 when it was introduced in 2017/18 and will reach £175,000 in 2020/21 – that's £350,000 for a couple. However, it cannot be more than the value of the deceased's interest in the property and is tapered away for estates worth more than £2 million. If possible, it is worth passing on your estate so that the full RNRB will be used, or be available to your surviving spouse or civil partner.

Business and agricultural properties are subject to other reliefs and you can pass them on free of IHT with no limit on value. However, you need to take care not to lose these valuable reliefs, for example by passing a farm as a lifetime gift to a child who is not using the property for

agricultural purposes when the donor dies, or to a spouse who dies within two years of receiving the inheritance. IHT should be considered when setting up or restructuring a business, as well as in succession planning.

Gifts and pensions

Lifetime gifts are a good way to reduce IHT, if you can afford to make them. A gift will escape IHT altogether, provided you survive for at least the following seven years. It can be a good idea to insure against any liability in the event of earlier death.

Your pension fund can also be a powerful IHT planning tool. In general, death benefits payable from most registered pension schemes are outside the scope of IHT, although not all pensions can be passed on in this way. So it might be sensible to draw from other assets before taking income from your pension fund.

There may also be income tax to pay, depending on your age, so you should always take professional advice in any pension planning.



Good and bad news for the EIS and VCTs

Important changes to the Enterprise Investment Scheme (EIS) and Venture Capital Trust (VCT) rules came into effect this April.

They will be good news for knowledge-intensive companies. However, the introduction of a risk-to-capital condition will be less welcome to many investors.

The good news

The maximum you can invest in an EIS and benefit from 30% tax relief has doubled from £1 million to a total of £2 million a year. The £1 million limit still applies to normal EIS investment, but you can now invest a further £1 million in knowledge-intensive companies.

A knowledge-intensive company, very broadly, is one that spends large amounts on research and development or innovation, and either creates intellectual property or has lots of highly-skilled employees.

Existing rules mean your EIS investment:

- Can be backdated to the previous tax year if you don't have sufficient tax liability for the year of investment.
- Is not normally subject to capital gains tax when you sell it.

- Normally qualifies for 100% inheritance tax business relief after you have owned it for at least two years.

The bad news

The government has introduced a risk-to-capital condition which applies to all EIS and VCT investments (including the Seed Enterprise Investment Scheme). Investments that have been structured to provide a low-risk return for investors will no longer qualify for tax relief. The idea is to encourage investment in genuinely entrepreneurial companies where there is a significant risk of loss of capital.

This is not so unreasonable given the generous tax reliefs available for EIS and VCT investment.

But the new condition introduces a degree of subjectivity, which depends on HMRC taking a 'reasonable view'.

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Closing the gap on equal pay

The right to 'equal pay for work of equal value' has been enshrined in law since 1970, but the gender pay gap is still headline news nearly 50 years later.

By 4 April 2018 businesses with 250 or more employees had to report their gender pay gap as of 5 April 2017, showing the difference in both mean and median hourly earnings and bonus payments.

The gender pay gap has narrowed, but it is currently 9.7% when based on median pay for full-time workers, and it increases to 18.4% when part-time employees are included.

Litigation

Recent high-profile examples include a pay gap of 28.6% at Channel 4; John McEnroe being paid ten times more than fellow commentator Martina Navratilova; and the Queen being paid less than Prince Philip on the TV show 'The Crown'. And that's just the media.

Gender inequality can lead to low staff morale, poor employee retention rates and litigation – with several supermarket chains recently finding out how costly legal claims can be. Tesco, for example, is facing a £4 billion claim for back pay from thousands of its female workers.

At issue is whether different jobs are comparable – are shop floor jobs, such as check-

“ *Most employees appreciate transparency in pay and both the government and ACAS believe that this will narrow the gender gap.*

out and shelf stacking, which are mainly done by female workers, of equal value to higher-paid jobs in male-dominated distribution centres?

Best practice

Obvious areas to review include recruitment and promotion to discern whether there are any hidden or unconscious biases in selection. Mentoring and training programmes could also help with staff progression to ensure more equal representation at senior levels. It could also help to encourage greater use of paternity leave.



In the future, gender pay gap reporting could be extended to smaller organisations. Most employees appreciate transparency in pay and both the government and ACAS believe that this will narrow the gender gap in organisations. It might be worth publishing your organisation's gender gap even if it is below the 250 employee threshold.

10 tips on how to avoid becoming a victim of fraud

Here at Lang Bennetts, we've heard of several instances where clients and suppliers have been duped into paying money to the wrong person. Fraud of that kind is getting increasingly sophisticated, so here are our ten tips on how to avoid becoming a victim.

- 1. Be suspicious of any email that says banking details have changed** – even if it looks legitimate.
- 2. Delete emails requesting your login, password or user ID details.** You only need to provide that information when you're securely logging in to sites like your online banking.
- 3. When paying online, check the link you are using is secure.** Look for a padlock symbol in the browser window frame which appears when you log in or register.
- 4. Be alert for scam emails.** Scammers often pretend to be someone you know or trust – like the HMRC. Don't click on any links, pictures or attachments and don't send money.
- 5. Google anything you're unsure about.** Type a company or product name into your search engine and add words like 'complaint' or 'scam' to see if anything comes up.
- 6. Be careful how you pay.** Credit cards are usually a safer option because they are covered by the Consumer Credit Act.
- 7. Don't rush into a decision.** If you're being pressured into parting with your money, don't be afraid to say you'll think about it, do some research and talk to someone else.
- 8. Treat free trial offers with caution.** Look carefully at the cancellation policy and note what you need to do to get out of full subscription and when.
- 9. Be sceptical.** Con artists are very good at forging letter heads or ringing to demand immediate debt settlement. Stay calm, don't react and do your research.
- 10. Stay safe online.** Use passwords that are long and unpredictable. Change them regularly and never email them.

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